

CONFIDENTIALNIO/PE
INCOMING

07/ /

IMMEDIATE

FRP: 6. 8

STATE

N5C

25X1



82 0028246

SCO

PAGE 001

NC 0028246

TOR: 061511Z DEC 82

00 RUEAIIB
 ZNY CCCCC ZOC STATE ZZH
 STU8556
 00 RUEHC
 DE RUEHMO #4689/01 3401418
 ZNY CCCCC ZZH
 O 061415Z DEC 82
 FM AMEMBASSY MOSCOW
 TO RUEHC/SECSTATE WASHDC IMMEDIATE 1122
 INFO RUFHLG/AMCONSUL LENINGRAD 9642
 RUFHOL/AMEMBASSY BONN 3890
 RUEHLD/AMEMBASSY LONDON 5610
 RUEHOT/AMEMBASSY OTTAWA 1810
 RUFHFR/AMEMBASSY PARIS 2774
 RUEHBS/AMEMBASSY BRUSSELS 2747
 RUEHKOB/AMEMBASSY TOKYO 5480
 RUFHNA/USMISSION USNATO 2810
 BT
 C O N F I D E N T I A L MOSCOW 14689

PARIS ALSO FOR USOECD

USEC

PASS TREASURY FOR JOHN LANGE AND STEVE CANNER

E.O. 12356: DECL: 12/6/88
 TAGS: EEWT, EFIN, UR, ENGR
 SUBJECT: ASTRAKHAN SOUR GAS COMPETITION -- THE PRESSURE
 - RISES

REF: A) PARIS 41103, B) BONN 26378, C) MOSCOW 14123
 - D) STATE 313593

1. CONFIDENTIAL - ENTIRE TEXT

2. SUMMARY. THE POSSIBILITY OF AMERICAN PARTICIPATION IN
 ASTRAKHAN -- DESPITE EXPECTATIONS THAT THE FIRST-PHASE
 PRIME CONTRACTOR MAY BE PICKED VERY SOON -- HAS INCREASED
 THE NERVOUSNESS OF EUROPEAN AND CANADIAN COMPETITORS.
 THE RISK OF A BREACH OF THE OECD EXPORT CREDIT CONSENSUS
 REMAINS HIGH, AND WE WOULD WELCOME UPDATED INSTRUCTIONS
 TO USE WITH DIPLOMATIC COLLEAGUES HERE. END SUMMARY.

AMERICANS COMING?

3. CANADIAN ECONOMIC MINISTER-COUNSELOR HERE INSISTS THAT
 U.S. FIRMS ARE BELATEDLY GETTING INTO THE ASTRAKHAN ACT,
 AND THAT HE WAS EVEN DECLINED APPOINTMENTS AT KEY FOREIGN
 TRADE ORGANIZATIONS WITH THE EXCUSE THAT THEY NEEDED TO
 TALK TO AMERICANS. ECONCOUNS TOLD HIM NOT TO LET THE
 SOVIETS PLAY ON HIS NERVES, AND THAT HE WAS AWARE OF ONLY
 A FEW POSSIBLE SUBCONTRACTORS. CANADIAN ECONMIN BELIEVES

State Dept. review completed

CONFIDENTIAL

CONFIDENTIAL

82 0028246

SCO

PAGE 002

NC 0028246

TOR: 061511Z DEC 82

THAT EVEN A U.S. PRIME CONTRACTOR, SUCH AS FLUOR, MIGHT BE A SERIOUS CONTENDER.

4. A COMMERCIAL CONTACT WHO HOPES FOR A SUBCONTRACT FROM ANY OF THE PRIME CONTRACTORS HAD TOLD US THAT A MAJOR U.S. FIRM (E.G., FLUOR) COULD STILL ENTER THE COMPETITION, AT LEAST AS A CONSULTANT, TO ENABLE NIPPON STEEL TO BID AS A PRIME CONTRACTOR FOR THE GAS-GATHERING SYSTEM, BUT HE NOW BELIEVES THAT NEITHER NIPPON NOR FLUOR HAVE MUCH OF A CHANCE. SINCE BIDDERS WERE ORIGINALLY ASKED TO MAKE TWO PROPOSALS -- ONE WITH, AND ONE WITHOUT U.S. EQUIPMENT AND TECHNOLOGY -- THE ADDITION OF U.S. SUBCONTRACTORS AT THIS STAGE OF THE NEGOTIATIONS MAY NOT BE A SERIOUS COMPLICATION. AS PREVIOUSLY REPORTED, MAUNESMAN, TECHNIP AND LAVALIN ARE THE PRIME BIDDERS.

5. AS OF NOVEMBER 30, THE DEADLINE FOR LETTING PRIME CONTRACTS FOR THE GAS-GATHERING SYSTEM AND THE SEPARATION PLANT WAS DECEMBER 12, BUT WE NOW THINK THE DATE WILL SLIP. BOTH MAUNESMAN AND TECHNIP ARE ARGUING THAT A SINGLE PRIME CONTRACTOR FOR BOTH PHASES WOULD BE PREFERABLE, BUT SOVIETS APPARENTLY DO NOT AGREE. COMMENT: IF IN FACT THE SOVIETS DO NOT CHOOSE A SINGLE PRIME CONTRACTOR FOR THE GATHERING SYSTEM AND SEPARATION PLANT, THEN THEY GAIN NO BARGAINING ADVANTAGE BY AWARDING BOTH CONTRACTS AT THE SAME TIME. WE STILL THINK THE GATHERING SYSTEM MIGHT BE AWARDED FIRST, AND THE SEPARATION PLANT CONTRACT DEFERRED. END COMMENT.

BARGAIN FINANCING

6. CANADIANS HERE ARE OBVIOUSLY VERY CONCERNED THAT FRENCH WILL ALSO OFFER A 7.8 PERCENT COSMETIC RATE TO SUPPORT TECHNIP'S BID, EITHER BY GRANDFATHERING THE OECD CONSENSUS RATES OR BLENDING PUBLIC AND PRIVATE FINANCING, AND ARE NERVOUS ABOUT THE CHEVENEMENT VISIT NOW IN PROGRESS, AS WELL AS THE SOVIETS' RENEWED INTEREST IN U.S. FIRMS. GIVEN THE CANADIAN POSITION, IT SEEMS UNLIKELY THAT THE JAPANESE BID (IF EFFECTIVE) WILL BE MUCH ABOVE 7.8 EITHER. CANADIAN ECONOMIC MINISTER-COUNSELOR STRESSES, HOWEVER, THAT, QUOTE, AT THE PRESENT TIME, THE COST OF FINANCING ABOVE 7.8 PERCENT WILL BE FULLY REFLECTED IN THE PRICE,

PARIS ALSO FOR USOECD

USEC

PASS TREASURY FOR JOHN LANGE AND STEVE CANNER

END QUOTE, AND THUS THERE WILL BE NO PUBLIC SUBSIDY.

7. THE FRENCH EMBASSY CONFIRMS THE PURPOSE OF CHEVENEMENT'S VISIT ALONG LINES OF PARIS 40621, BUT ON ASTRAKHAN THEY SAY ONLY THAT HE WILL SAY THAT IT IS UP TO SOVIETS TO CORRECT FRANCE'S LARGE BILATERAL DEFICIT.

8. COMMENT: FOR REASONS ALREADY REPORTED, WE THINK IT UNLIKELY THAT SOVIETS WILL AWARD A CONTRACT FOR ASTRAKHAN AT A COSMETIC RATE ABOVE 7.8 PERCENT AND WE SEE NO CHANCE THEY WILL AGREE TO 12.4. WE ARE MORE TROUBLED BY THE PROSPECT OF "GRANDFATHERING" FINANCING TERMS ON A PROJECT THAT HAS BEEN UNDER DISCUSSION FOR YEARS; ALL MAJOR SOVIET IMPORT PROJECTS TAKE YEARS TO MATURE. BY GRANDFATHERING THE RATE, THE SUBSIDY ELEMENT CAN BE POTENTIALLY VERY LARGE AND EVEN MORE OBSCURE THAN WHEN CONTRACTORS RAISE THEIR PRICE TO REFLECT FINANCING COSTS. WHILE WE APPRECIATE THE DIFFERENCES, WE WOULD PREFER NOT TO ARGUE THAT

CONFIDENTIAL

CONFIDENTIAL

82 0028246 SCO

PAGE 003
TOR: 061511Z DEC 82

NC 0028246

THE OECD CONSENSUS REQUIRES A CERTAIN COSMETIC RATE (12.4),
EVEN IF FINANCING COSTS ARE INCLUDED IN THE PRICE, WHILE
WE ARE ALSO ARGUING THAT SOVIET INSISTENCE ON A CERTAIN
COSMETIC RATE (7.8) IS UNREALISTIC. IF THERE ARE STRONGER
POINTS CONTAINED IN THE TERMS AGREED TO IN THE CONSENSUS,
PLEASE ADVISE.

9. ACTION REQUESTED. UNDER THE CIRCUMSTANCES, WE HAVE
CONFINED OUR FEW COMMENTS TO OUR DIPLOMATIC COLLEAGUES
HERE - WHO ARE WORKING CLOSELY WITH THEIR COMPANIES AND
SUPPORTING THEIR EFFORTS TO FIND "COMPETITIVE"
FINANCING -- TO NOTING THE VALUE OF THE OECD EXPORT
CREDIT CONSENSUS AND THE ABSURDITY OF SUBSIDIZING SOVIET
PROJECTS. WE BELIEVE WE COULD SUPPORT EFFORTS IN
WESTERN CAPITALS MORE EFFECTIVELY IF WE WERE TO RECEIVE
UPDATED INSTRUCTIONS, FOR USE WITH EMBASSIES HERE,
WHICH REFLECT THE PROBABILITY OF A LOW COSMETIC RATE
BUT WHICH NONETHELESS SHOWS OUR CONCERN THAT THE
CONSENSUS NOT BE SERIOUSLY WEAKENED BY THE FIRST MAJOR
SOVIET CONTRACT SINCE THAT AGREEMENT WAS REACHED.
HARTMAN
END OF MESSAGE

CONFIDENTIAL

CONFIDENTIAL